

# Informing the audit risk assessment for Burnley Council 2020/21

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Burnley Council's external auditors and Burnley Council's Audit and Standards Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Standards Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Standards Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Standards Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Standards Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Standards Committee and supports the Audit and Standards Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Burnley Council's management. The Audit and Standards Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The impact of Covid-19 on asset valuations , pension fund valuations, business rates appeals and provisions for bad debts.
2. Have you considered the appropriateness of the accounting policies adopted by Burnley Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The appropriateness of the accounting policies adopted have been considered and were reported to Audit and Standards Committee in March 2021.  We have not identified any events or transactions which have caused us to change or adopt new accounting policies.
3. Is there any use of financial instruments, including derivatives?	The council has not used any financial instruments in year, including derivatives.
4. Are you aware of any significant transaction outside the normal course of business?	Management is not aware of any significant transaction outside the normal course of business.



# General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Potential impact of Covid-19 on asset valuations.
6. Are you aware of any guarantee contracts?	Management is not aware of any guarantee contracts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Management is not aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Burnley Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Mr David Berkley QC – open litigation Stevensons Solicitors – open litigation Broadway House Chambers – open litigation Trowers & Hamlin – open litigation DAC Beachcroft – open litigation



# General Enquiries of Management

Question	Management response
9. Have any of Burnley Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Management is not aware of any reports.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Lambert Smith Hampton – Pioneer Place

# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Standards Committee and management. Management, with the oversight of the Audit and Standards Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Standards Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Burnley Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Standards Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Standards Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Burnley Council's management.

<p>results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>The Council's Strategic Risk Register was reported to Audit and Standards Committee in March 2021. The register is usually reviewed and updated annually however due to the Covid-19 pandemic more frequent reviews have been carried out, with the updated Strategic Risk Register being reported to Audit and Standards Committee in July 2021.</p> <p>Managements view as a result of this is that there is no material risk of fraud in the financial statements.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Covid-19 Business Grants</p> <p>Council Tax</p> <p>Business Rates</p> <p>Self isolation Payments</p>

# Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Burnley Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Management is not aware of any instances of actual , suspected or alleged fraud, errors other irregularities either within Burnley Council as a whole or within specific departments since 1 April 2020.</p> <p>An annual fraud risk report is reported to the Audit and Standards Committee.</p> <p>Internal Audit investigated frauds are reported to Audit and Standards Committee as are the outcome of the NFI exercise.</p> <p>The Council works with NAFN &amp; NFI around identifying potential/suspected frauds regarding business grants.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Burnley Council where fraud is more likely to occur?</p>	<p>Management has not identified any specific fraud risks, nor does it have concerns that there are any areas that are at risk of fraud.</p> <p>The Council works with NAFN &amp; NFI around identifying potential/suspected frauds regarding business grants.</p> <p>Management is not aware of any locations within Burnley Council where fraud is more likely to occur.</p>
<p>5. What processes do Burnley Council have in place to identify and respond to risks of fraud?</p>	<p>The Council promotes authority wide Values – TEAM. Codes of conduct are in place which apply to our employees and to our strategic partner. Declarations of interests are kept up to date with an annual reminder.</p> <p>The Council works with NAFN &amp; NFI around identifying potential/suspected frauds regarding business grants. The Council utilised the services of ‘Spotlight’ and ‘Experian’ to help verify business grants.</p> <p>We operate a whistleblowing policy which has been reviewed. Fraud awareness e-learning is available to all staff. No significant issues have been reported.</p>

# Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Burnley Council, including:</p> <ul style="list-style-type: none"><li>• the existence of internal controls, including segregation of duties; and</li><li>• the process for reviewing the effectiveness the system of internal control?</li></ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Internal Audit complete an annual plan of audits. The annual governance statement gathers internal control effectiveness assurance from across the organisation. These are comprehensive.</p> <p>N/A</p> <p>There are the Council wide Values – TEAM. There are codes of conduct which apply to our employees and to our strategic partner. Declarations of interests kept up to date with an annual reminder. We also operate a whistleblowing policy which has been reviewed. Fraud awareness e-learning is available to all staff. No significant issues have been reported.</p> <p>The Council is not aware of any areas or undue pressure which can result in the override of controls or inappropriate influence over financial reporting.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Management is not aware of any areas where there is the potential for misreporting.</p>

# Fraud risk assessment

Question	Management response
<p>8. How do Burnley Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>There are the Council wide Values – TEAM. There are codes of conduct which apply to our employees and to our strategic partner. Declarations of interests kept up to date with an annual reminder.</p> <p>We operate a whistleblowing policy which has been reviewed.</p> <p>Fraud awareness e-learning is available to all staff.</p> <p>No significant issues have been reported.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>High risk posts include those officer involved in the administration of grants, the procurement of goods &amp; services and those within local taxation.</p> <p>Controls such as separation of duties, supervision and authorisation help to mitigate the risk. All employees are required to complete a declaration of interest, which are kept up to date with an annual reminder.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Management is not aware of any such relationships.</p> <p>The council follows the transparency arrangements for interests, payments and contracts. We have policies and procedures for instances of such conflicts of interest and gifts and hospitality.</p>

# Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Standards Committee?</p> <p>How does the Audit and Standards Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>An annual fraud risk report is reported to the Audit and Standards Committee.</p> <p>Internal Audit investigated frauds are reported to the committee as are the outcome of the NFI exercise.</p> <p>None identified.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Management is not aware of any such complaints.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Standards Committee, is responsible for ensuring that Burnley Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Standards Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.



# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Burnley Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>We have a Monitoring Officer in place to consider the legality of decisions. We have professionally qualified accountants, legal officers and other professionals who review decisions.</p> <p>We ensure that employees are suitability qualified or have access to professional and specialist advisors. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.</p> <p>We are not aware of any changes to the Authority's regulatory environment.</p>
<p>2. How is the Audit and Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Annual Governance Statement process provides assurance from Heads of Service.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does Burnley Council have in place to identify, evaluate and account for litigation or claims?	<p>We have a Monitoring Officer in place to consider the legality of decisions. We have professionally qualified accountants, legal officers and other professionals who review decisions.</p> <p>We ensure that employees are suitability qualified or have access to professional and specialist advisors.</p>
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

# Related Parties

## Issue

### Matters in relation to Related Parties

Burnley Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Burnley Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any entity that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority's perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

# Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Burnley Council's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"><li>• the nature of the relationship between these related parties and Burnley Council</li><li>• whether Burnley Council has entered into or plans to enter into any transactions with these related parties</li><li>• the type and purpose of these transactions</li></ul>	<p>There have been no changes in related parties.</p>
<p>2. What controls does Burnley Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Members and Officers are required to maintain declarations of interest. In the case of Members this is a public register. In addition to this there are codes of conduct that require both officers and members to declare potential conflicts of interest and to avoid involvement in any related party decisions where there is a potential conflict of interest.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Controls such as separation of duties, supervision and authorisation are in place.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Controls such as separation of duties, supervision and authorisation are in place.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Standards Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	None have been identified.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	We ensure that employees are suitably qualified or have access to professional and specialist advisors. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	We ensure that employees are suitably qualified or have access to professional and specialist advisors. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.
4. How do management review the outcomes of previous accounting estimates?	We ensure that employees are suitably qualified or have access to professional and specialist advisors. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes were made.

# Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	We ensure that employees are suitably qualified or have access to professional and specialist advisors.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	We ensure that employees are suitably qualified or have access to professional and specialist advisors. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	We ensure that employees are suitably qualified or have access to professional and specialist advisors. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul data-bbox="98 846 697 988" style="list-style-type: none"><li>- Management's process for making significant accounting estimates</li><li>- The methods and models used</li><li>- The resultant accounting estimates included in the financial statements.</li></ul>	We ensure that employees are suitably qualified or have access to professional and specialist advisors. Management is responsible to ensure that all policies, procedures and systems are in line with laws, regulations and standards. There is assurance from reviews by internal and external sources to check compliance.

# Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Management are not aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A).
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Management considers the arrangements for the accounting estimates, as detailed in Appendix A reasonable.
12. How is the Audit and Standards Committee provided with assurance that the arrangements for accounting estimates are adequate ?	We ensure that employees are suitability qualified or have access to professional and specialist advisors.



## Appendix A Accounting Estimates

**Note: this appendix must be included unless Those Charged with Governance consider the PSA significant judgements and estimates management response for each material estimate**

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Assets are depreciated over useful lives that are dependent on assumptions around the level of maintenance and repairs that will be incurred in relation to individual assets. The impact of the Covid-19 provides some uncertainty around property valuations.	All valuations are carried out internally. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). Valuations of vehicles, plant and equipment are based on historic costs.	The Council instructs its own internal qualified surveyors.	The following fair value hierarchy provides further information on the approach used to determine and measure fair value of certain assets and liabilities:  Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date. Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 – unobservable inputs for the asset or liability.	No
Investment property valuation	As land and buildings valuation above.	As land and buildings valuation above.	As land and buildings valuation above.	As land and buildings valuation above.	No
LGPS Net	Supply of information to LGPS	Code and pension	Mercers	Check Mercers assumptions and	No

## Appendix A Accounting Estimates

**Note: this appendix must be included unless Those Charged with Governance consider the PSA significant judgements and estimates management response for each material estimate**

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	We have identified and reviewed the level of provisions required at the Balance Sheet date where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Consultation has taken place between Heads of Service, the Council's Monitoring Officer, senior officers, Management Team and external organisations.	Assessment and likelihood of risk.	Management Team, Heads of Service and Analyse Local consulted	Review of schemes / issues identified throughout the year.	No
<sup>26</sup> Impairment of Receivables	An impairment allowance has been made for doubtful debts	Assessment of the increase / decrease in	Suitably qualified finance	Estimates of potential doubtful debts are based on historical experience of	No



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